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8 March 2005

Lyons Inquiry into Local Government Funding
Room 3/12
1 Horse Guards Road
London
SW1 2HQ

Dear Sir Michael

Independent Inquiry into Local Government Funding

The possible changes to the nature of local government funding are of great importance to the North East Chamber of Commerce (NECC).

NECC is the only regional chamber of commerce in the country representing more than 5,000 businesses located in an area co-terminus with Government Office for the North East. Its members are drawn from all sizes of business across all sectors and each has a stake in a successful and efficient local authority sector. The Chamber has excellent relationships with all 25 local authorities in the North East.

This response to your inquiry into local government funding seeks to add the perspective of businesses in the North East to the analysis of options for reform of non-domestic rates. The Chamber consults each year with local authorities before they set council tax levels and as a result of this relationship NECC and local authorities in the region will respond jointly to you on other aspects of your review.

The NECC recognises the need for reform in local government funding, and acknowledges the need for businesses to make an equitable contribution. The Balance of Funding Review presented three options for the reform of the current non-domestic rate system:

- Re-localise non-domestic rates, with safeguards for business, e.g. linking maximum increases to council tax increases;
- retain the national system, but lift the current inflation cap on rates increases;
- retain the national system, but allow an element of local retention of rates, building on the Local Authority Business Growth Incentive (LAGBI) scheme and the existing powers for Business Improvement Districts (BIDs).

The NECC advocates the third of these options. Re-localising business rates will, over time, return England to a situation where neighbouring local authorities present widely differing cost burdens upon business. This is unacceptable, damaging to local economies and must be avoided.

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It is likely that under a re-localised regime relations between business and local authorities will quickly worsen. Similarly, authorities with a low business base will lose out without the mechanisms for resource equalisation that exist now.

Retaining the national system and simply removing the inflation cap fails to reward those local authorities with effective economic development programmes and fails to provide a mechanism to engage businesses with their local communities.

Keeping the national system augmented by locally retained elements represents an appropriate solution. The LABGI provides an incentive for local authorities to accelerate the numbers of new businesses. This funding should be ring-fenced for continuing economic development activity. Similarly, BIDs enable business-backed area specific initiatives to be funded outside of the national scheme. However, businesses must be fully engaged in any BID area and not simply regarded as a funding source.

Beyond these options, the NECC remains concerned that businesses represent a soft target for increasing local authority revenue. Whilst council-taxpayers have the opportunity to remove their representatives from office through local elections, businesses have no similar sanction. It is therefore crucial that mechanisms to engage local businesses, such as through chambers of commerce, are encouraged.

Similarly, the Chamber believes that increasing the effectiveness of current funding through additional flexibility and improved efficiency is also extremely important. Simply addressing the income available to local authorities fails to consider the need for less stringent regulations on where funds might be allocated, or highlight the opportunities for increasing the available resources through greater efficiency in the delivery and management of local authority services.

In summary, the NECC opposes the re-localisation of business rates and advocates the retention of the current system that could be modified to increase the effect of the Local Authority Business Growth Incentive and Business Improvement District initiatives.

I trust that this response is a useful one and look forward to hearing the findings of your inquiry.

Yours sincerely



George Cowcher
Chief Executive